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TAGS: [IR](#) [PGOV](#) [PINR](#) [ECON](#) [EFIN](#)
SUBJECT: IRAN'S PRIVATE BANKS: STRICTLY REGULATED BUT PERCEIVED AS
UNRELIABLE

DUBAI 00002012 001.2 OF 002

CLASSIFIED BY: Jason L. Davis, Consul General, Dubai, UAE.
REASON: 1.4 (b), (d)

1.(C) Summary: Private banks in Iran are highly regulated, especially when they want to open a new branch. While rates of return on deposits are high compared to government banks, consumer confidence in private banks in Iran is currently low. This distrust of private banks is primarily the result of a perceived lack of security of deposits and of the necessary expertise and qualifications on the part of bank employees. The government has lowered official lending rates. End summary.

Private Banks in Post-Revolutionary Iran - A New Phenomenon

2.(C) Prior to the Islamic Revolution in 1979, there were 28 private banks in Iran. The government nationalized these banks after the revolution, and private banks were not allowed again until 2000, when the Majles ratified the Third Five-Year Economic Development Plan. The plan authorized the establishment of private banking and credit institutions. The Majles restricted ownership of these banks to Iranian citizens who had to meet the following requirements: 1) experience and knowledge in the field of banking; 2) the ability to provide the necessary capital; and 3) lack of any criminal record for either financial or moral crimes.

3.(C) Western and Iranian press reports differ on when the first private bank in post-revolutionary Iran was founded, but it was sometime in 2001. According to the Economist Intelligence Unit, the Central Bank issued the first license for a private bank to Modern Economic Bank in August 2001. Other private banks in Iran include Karfarin Bank, which received a license in December 2001, and Saman Bank, which was licensed in August 2002. According to Iran Daily, there were four private banks in Iran by the end of 2004. These banks reportedly had 76 branches throughout the country and employed more than 1255 people. As of 20 March 2004, these banks had accumulated more than 14 billion rials (\$1.5 million) in deposits and offered over 10 billion rials (\$1.1 million) in loans.

Private Banks are Strictly Regulated

4.(C) On March 9, Conoff interviewed an employee of the regulatory office of the Central Bank of Iran for a visa. The employee in question deals with the approval process for private banks to open new branches. There are currently six private

banks operating in Iran. According to her, these banks are carefully regulated. To open a new branch, private banks in Iran must first demonstrate that they have a sufficient number of employees who have the requisite qualifications, training, and expertise to man the new branch. She provided no further information on the documentation banks must provide in order to establish the fulfillment of these requirements or what concerns drive such close scrutiny by the Central Bank.

Private Banks Offer High Rates of Return

5.(C) Rates of return on savings and other interest bearing accounts at private banks are much higher than those available at government-owned banks. The Central Bank employee claimed, however, that the rates of return on deposits vary widely depending upon the private bank. Currently, some banks offer as much as 18 percent interest on deposits, which she noted is much better than the 2 percent available at most government banks.

But Consumer Confidence Low

6.(C) Consumer confidence in private banks is currently very low, according to the Central Bank official. She said deposits in private banks are not viewed as "safe" because it is believed that employees are often unqualified and do not have sufficient knowledge about banking matters, and that owners only seek short-term profit. Another contact, a board member of an Iranian investment company, told Conoff on 13 March that people are putting their money in Islamic Republic of Iran savings bonds as the "promised" return is 15.5 percent and relatively stable. He claimed that the return rate was so high largely because inflation in Iran was currently running at about 13 percent. According to an Iranian press report, Ebrahim Sheibani, Iran's Central Bank governor, stated in early March that although the Central Bank supports private banks, they continue to suffer from poor competition (perhaps a reference to the fact that there are only six private banks in Iran).

DUBAI 00002012 002.2 OF 002

Iranian Government Drops Lending Rates

7.(C) According to Iranian press reports, Iran's Money and Credit Council decided on March 11 to drop government bank lending rates two percent from 16 to 14 percent. The government is planning to regulate the lending rates charged by private banks as well. This decision came after Ahmadinejad's administration joined the Majles in calling for a reduction in the rates and will be implemented in the new Iranian year (which began March 21). Iran's Central Bank Governor Ebrahim Sheibani, as quoted in an Iranian press report, noted on March 7 that lending rates in Iran have dropped from 24 to 16 percent in the past three years, stating that this decline is a huge success for Iran's banking system. An Iranian American source claimed in February that according to a contact of his who used to work in the intelligence ministry, Ahmadinejad was trying to do two things which -- if successful -- would allow him to stay in power: 1) drop the interest rate for borrowers to single digits; and 2) replace old guard officials throughout the government with new (presumably ones who support Ahmadinejad).

Comment

8.(C) It is interesting to note that Iranians continue to view private banks as unreliable, despite reported close scrutiny by the Central Bank. Furthermore, despite the recent drop, the interest rate on loans remains high -- a deterrent on investment in an already depressed economy.

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